LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7193 | **NOTE PREPARED:** Jan 6, 2005
BILL NUMBER: HB 1566 | **BILL AMENDED:**

SUBJECT: Education Savings Deduction.

FIRST AUTHOR: Rep. Buell | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: The bill provides that up to $2,000 in contributions to a Family College Savings Account may be deducted from Adjusted Gross Income. The bill reduces the number of appointed directors of the Education Savings Authority from five to three. It also codifies an expired noncode provision that requires the Treasurer of State and the Board for Depositories to provide clerical support, office space and services, and financial support to the Education Savings Authority.

Effective Date: January 1, 2006.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Indiana Education Savings Authority: The bill reduces the number of appointed members of the Indiana Education Savings Authority from five to three. Under current statute, appointed members are not entitled to the minimum salary per diem but are entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Thus, the reduction in membership would only affect costs relating to expense reimbursement of two members.

State Board for Depositories: The bill requires the Treasurer of State and the State Board for Depositories to cooperate and provide administrative support to the Indiana Education Savings Authority. Currently, the State Board for Depositories provides administrative support to the Authority. This support involves compensation for 1.5 employees (the State Board and the Authority share an office manager), office space expenses, and other administrative expenses. Thus, this requirement could potentially have some impact on the Treasurer of State. However, the administrative expenses of the Authority presumably could be absorbed by the State Board for Depositories and the Treasurer of State given their existing budgets and resources. (A noncode provision that expired July 1, 2000, required the Treasurer of State, the Board for Depositories, the Indiana Commission for Higher Education, and the State Student Assistance Commission to cooperate and provide administrative support to the Authority.)

Explanation of State Revenues: *Summary:* The bill would reduce state AGI Tax liabilities for individual taxpayers who make contributions to Indiana Family College Savings Accounts. The revenue loss due to this bill could potentially range from about $660,000 to $725,000 in FY 2007.

Background: The bill creates an AGI Tax deduction for taxpayers who make contributions to a Family College Savings Account for a dependent. The deduction is equal to the lesser of either the taxpayer's contribution to the account during the taxable year or $2,000. The bill also limits the maximum deduction for joint filers to $2,000 annually. For a taxpayer claiming the full $2,000 deduction, this would effectively reduce his or her annual income tax liability by $68.

Since the deduction is effective beginning in tax year 2006, the fiscal impact would begin in FY 2007. Eighty six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

The estimates are based on annual account and account contribution totals for the Family College Savings Program from 2001 to 2004. As of December 31, 2004, a total of 13,992 accounts had been established by Indiana residents. This total was about 9% higher than the total Indiana resident accounts in existence at the end of 2003. Annual growth in Indiana resident accounts has averaged about 30% since 2001. Account contributions by Indiana residents in 2004 totaled about $19.4 M, for an average contribution during the year of about $1,385. The average contribution in 2003 was about $1,223, but was about $3,031 in 2002. Assuming 2004 average contribution and no annual growth in Indiana resident accounts, the total deductible contributions in 2006 is estimated at about $19.4 M. However, assuming a 5% annual growth rate in accounts, there would be about 15,426 Indiana resident accounts in 2006. With an average contribution of $1,385, the the total deduction amount in 2006 is estimated at about $21.4 M. It is important to note that the fiscal impact assumes that each account owner (based on the historic average contribution) will be able to claim a $1,385 deduction. Thus, the actual impact could potentially be lower to the extent that the historic average arises from a relatively small number of account owners contributing substantially more than $2,000 deduction maximum each year while others contribute less than $1,385 per year. In addition, the impact could potentially be lower depending upon the number of accounts where the beneficiary is not a dependent of the owner, or a single owner has more than one account.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Indiana Education Savings Authority. Department of State Revenue. Treasurer of State. State Board for Depositories.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Susan Loftus, Indiana Education Savings Authority, (317) 232-5259.

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